



With a \$3 Billion Write-Down on the Way, Is Barrick Gold Corp. a Buy or Sell?

Description

Due to collapsing gold prices (which are down 40% in four years), **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) warned this week that it could take write-downs worth up to \$1.2 billion related to mines in Chile, Argentina, and the Dominican Republic. It may also write-down goodwill from previous acquisitions by an additional \$1.8 billion. Both write-downs would total about \$3 billion.

While the write-downs are non-cash (there's no actual cash outlay), they may have significant effects on the company's existing debt as well as its ability to borrow in the future. A majority of the company's debt has attached covenants, meaning that Barrick needs to maintain certain levels of solvency to keep bondholders happy.

How will the impending write-downs impact Barrick?

Debt is still number one

Last year, with crumbling commodity prices and an overleveraged balance sheet, Barrick decided to focus on reducing its onerous debt load. With its share price down 40-50%, selling additional stock would be difficult. Instead, Barrick turned to selling assets. While this route isn't the most attractive during a bear market (implying lower selling prices), it was the company's only option.

Since January 2015, Barrick has reduced its debt load from \$13.1 billion to \$11.2 billion. Once pending transactions go through, it should be down to just \$10.1 billion. The debt reduction should save the company over \$140 million in annual interest expenses. With an undrawn \$4 billion credit facility and only \$250 million in debt due before 2018 (the majority is due after 2032), Barrick is in a fine position to turn its focus towards other initiatives.

Costs falling to match lower selling prices

While improving its balance sheet, Barrick has also been able to drive down production costs. With gold prices at \$1,700 an ounce in 2012, the company had an all-in production cost of \$1,014 an ounce, providing plenty of room for fat profit margins. With gold now down below \$1,100, profitability has been squeezed.

To counter this, Barrick has driven costs down dramatically. For 2015, all-in production costs were around \$850 an ounce, a 16% improvement off 2012 levels. Last year represented the fourth year in a row of falling costs.

The company still has room to lower costs even further. Asset sales should continue with the highest-cost mines going first. Nearly two-thirds of Barrick's mines have production costs of only \$700-725 an ounce, so further sales should help improve the quality of the remaining business while lowering debt even further.

Shares are pricing in a recovery

It looks like the market is already catching on to Barrick's successes. In the past three months shares are up 20% despite gold prices falling over \$60 an ounce. The company's price-to-book ratio is also up to 1.11 times. Compare this to a competitor such as **Newmont Mining Corp.** ([NYSE:NEM](#)), which trades at only 0.78 times book, despite it having some distinct advantages.

For example, a higher percentage of Newmont's assets are in producing stage (compared to development), meaning it can spend less on capital expenditures. Additionally, Newmont has a debt load of only 0.65 times equity compared to Barrick's staggering debt of 1.28 times equity.

While Barrick is doing all the right things, it looks like its valuation has already caught up to some of its achievements. If you're bullish on gold, check out some of the industry's cheaper stocks such as Newmont Mining.

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Author
rvanzo

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